

Online Special Report: The Impact of Spiraling Health Care Costs

Many employers across the country expect double-digit health benefit premium increases next year, fueled in large part by ballooning outpatient prescription drug expenses and greater use of medical services.

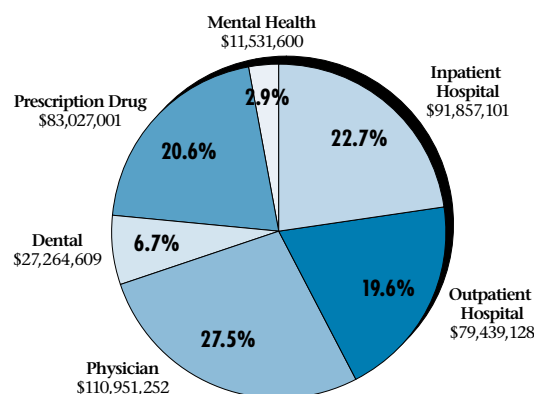
Monthly premiums for employer-sponsored health insurance plans jumped 11 percent from spring 2000 to 2001, up from a little more than 8 percent in 2000 and close to 5 percent in 1999, according to a study conducted by the Henry J. Kaiser Family Foundation and Health Research and Educational Trust.

Based on a survey of employers, the Watson Wyatt consulting firm projects an average employer health cost increase of nearly 14 percent nationwide for active employees in 2002. The cost of prescription drug benefits is expected to increase an average of 17 percent next year. The outlook for non-Medicare eligible retirees is comparable: overall cost increases for next year are expected to be around 15 percent, and for prescription drugs more than 18 percent.

What steps do employers plan to take within the next year to address these high health care costs? According to the Watson Wyatt study, possible actions include more employee education through the Internet, reducing benefits and increasing copayments, targeted interventions (health management) and more aggressive managed care.

Within the Mid-Atlantic region, higher premiums are expected for next year. Federal employees will experience average cost increases of 13 percent. Some plans are opting to reduce benefits, increase copayments for doctor's visits and/or restructure drug benefits. In North Carolina, health plan costs have prompted that state, which pays 100 percent of employee coverage, to offer a new plan with lower benefit levels.

**Total Key Advantage And Cost Alliance
Claims Paid – Fiscal Year 2001
Total = \$404,070,691**



The high cost of health care will also impact employees on the local level for 2002. In Henrico County, some employees will pay four-and-a-half times as much per month for the county's HMO plan as they did for similar coverage in the previous year. Henrico also is implementing higher copayments and out-of-pocket expenses. Fairfax County premiums will increase as much as 22 percent in 2002, with prescription drug costs representing 28 percent of the county's total health care

expenses. In response, the county will restructure its pharmacy benefit.

The same trends affecting employers nationally are impacting the State Health Benefits Program as it prepares for the fiscal year beginning on July 1, 2002. Like other employers, the program must manage the increasing cost of providing health benefits to employees and retirees while continuing to offer an excellent benefits package at the lowest possible cost. We will be looking at ways to meet the challenges. Full details will be communicated when available.

The Impact of Spiraling Health Care Costs (continued)

The State Health Benefits Program's claims expenses for employees and non-Medicare retirees enrolled in the Key Advantage and Cost Alliance plans increased 17 percent from the period ending June 30, 2000 to the same period in 2001, from \$345 million in 2000 to \$404 million in 2001.

As indicated in the chart, prescription drug claims for 2001 represented more than 20 percent of total claims expenses. The total cost of the pharmacy program

increased by 24 percent in 2001, and the average amount the program paid per prescription increased 9 percent, from \$43.96 to \$47.73. The annual pharmacy cost per employee rose to \$951, an increase of 14 percent.

For additional program financial information, see the 2001 Annual Report, available on the Department of Human Resource Management's Web site at www.dhrm.state.va.us/hbenefit.htm or through your agency's Benefits Administrator.

Two Regional Health Carriers to Leave State Program in 2002

CIGNA HealthCare of Virginia, Inc., and Optimum Choice, Inc., have notified the Commonwealth that their health plans will no longer participate in the State Health Benefits Program effective July 1, 2002. Two health maintenance organization (HMO) and two point-of-service health plans will be discontinued at that time: the CIGNA HMO plan, which currently serves Central and Eastern Virginia; the Optimum Choice Standard



Option HMO and POS plans, and the Optimum Choice High Option POS plan, which serve most of Virginia.

State employees and non-Medicare eligible retirees now enrolled in these plans will have an opportunity during Open Enrollment in the spring of 2002 to change to Key Advantage, Cost Alliance or any of the four regional plans which will remain available next July.